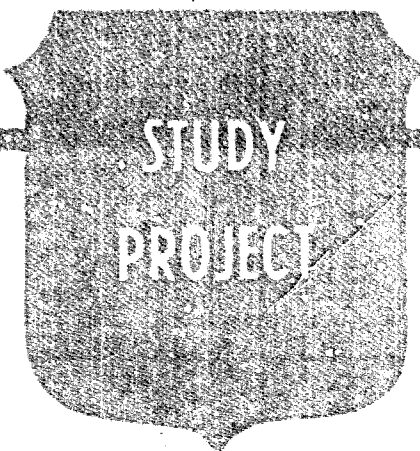


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## U.S. COMPETITIVENESS CRISIS: MYTH OR REALITY?

BY

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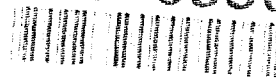
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U.S. COMPETITIVENESS CRISIS: MYTH OR REALITY?

AN INDIVIDUAL STUDY PROJECT

by

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## ABSTRACT

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There will be no day of days . . . when a new world order comes into being. Step by step and here and there it will arrive, and, even as it comes into being it will develop fresh perspectives, discover unsuspected problems, and go on to new adventure.

-- H.G. Wells

Note: This quotation from H.G. Wells, written in 1942, was reprinted in "Time to Get Together in Running Our World," by Martin Woollacott, Manchester Guardian Weekly, January 15, 1989, p.20.

## INTRODUCTION

Who owns the Twenty-First Century? This is the question that Lester C. Thurow, Dean of the MIT Sloan School of Management, asks in his new book, Head to Head: Coming Economic Battles among Japan, Europe, and America. He postulates that the reasons for our lack of competitiveness are not hard to pinpoint. It's just that we can't respond to them until we admit we have fundamental problems. Americans are extraordinarily reluctant to change the business system of 200 years.

This being an election year, everyone from Japanese Prime Minister Kiichi Miyazawa to students in the U.S. Army War College is also talking about America's future. Can the U.S. still compete internationally? Prophets of our economic doom are bewailing the decline and fall of American industry. "Today, America is technologically only average if one includes both product and process technologies. Our level of nonmilitary R & D investment is lower than Europe or Japan. Today's spending levels will eventually lead to a secondary position and lower rates of productivity growth."<sup>1</sup> "Lazy, greedy and lacking a work ethic" is how Japan's new labor minister, Masakuni Murakami describes the American worker. Allen Rosenstein, a professor at UCLA, says that "Today, we can say, that the U.S. is in the fourth decade of a continuing decline in trade competitiveness and a relative loss of life quality."<sup>2</sup>

But wait! Is there a glimmer of hope on the horizon? "America leads the world in productivity. We're ahead of Japan

in output per worker by a margin of about 19%," says Thomas P. Foley, Pennsylvania's Secretary of Labor and Industry.<sup>3</sup> Phillip A. Burgess, President of The Center for the New West in Denver, Colorado, believes that we're beset today by a corrosive culture of decline. "The decline myth is rapidly moving from a cottage industry to a growth industry. I think we will see it on next year's 500 list, of Inc magazine."<sup>4</sup> America bashing is in vogue these days and clearly has its disciples. A look at the facts, however, shows the U.S. is anything but a competitive laggard in many important areas of comparison, e.g., high-tech industries, service industries, international exports, etc. The truth must lie somewhere in between.

Robert Reich, Professor of Political Economy at Harvard University's John F. Kennedy School of Government believes "that rarely has a term in public discourse gone so directly from obscurity to meaningless, without any intervening periods of coherence, as national competitiveness."<sup>5</sup> He believes, as do many others, that U.S. competitiveness is a vital link in national security. Furthermore, he writes that we have used the rationale of national security to justify our economic decisions; something we must change if the United States is to maintain itself as both competitive and secure. As the dramatic world order changes of the last few years take hold, America's national security depends on global competitiveness and health of our economy. The U.S. is the one nation that possesses all three elements of national power - political, military and economic

strength. This paper will examine and discuss the current U.S. economic situation as it affects our national power. The U.S. competitiveness crisis; is it myth or reality?

#### NATIONAL POWER - HOW IMPORTANT IS ECONOMICS?

The fall of the Berlin Wall in November 1989, marked, some say, the end of the cold war between capitalism and communism. Now that this economic competition is over, another form of competition between two forms of capitalism is now underway. Using a distinction first made by George Lodge, a Harvard Business School professor, it seems that "The American form of capitalism is going to face off against the communitarian, or European and Japanese variants of capitalism."<sup>6</sup> These two ideological paradigms highlight different values. America stresses individual values, entrepreneurs, limited government influence, profit maximization, mergers, and open competition. On the other hand, the communitarian society is quite a different story. Here, government is prestigious and authoritative, sets a community value or work ethic, touts teamwork, firm loyalty, industry strategies and creates a consensus.

So, what does this predict for the future? The integration of the European Community Market on 1 January 1993 will mark a new economic beginning for Europe. Couple this with the dramatic success of Japan over the past 20 years and our form of capitalism and competitiveness ideology is in question.



According to one estimate, "nearly 75% of world commerce is conducted by economic systems operating with principles at odds with" American individualistic capitalism.<sup>7</sup> Economic power, no matter what form, is an undeniable dimension of national power. All of its individual features influence a nation's capabilities.

We learn at the U.S. Army War College that National Strategy is the "art and science of developing and using the political, economic and psychological powers of a nation state . . . to serve national objectives." David Jablonsky, professor at the U.S. Army War College states in his article "National Power," that "perhaps the most important measure of a nation's basic power potential is economic capacity -- its industrial strength and technological innovation."<sup>8</sup> I am solidly in Colonel Jablonsky's ideology camp on this thought. The other two basic tenets of national power, political and military, intertwine with economics to a large degree. Our economic health is the broad base for military and political decision-making. "There is a direct correlation between a nation's economic capacity and its military strength."<sup>9</sup>

Because economic strength and national competitiveness are so basic to our national power, what should be America's primary objective in the world economy? Some economists agree that we have to change dramatically to move ahead; we are slowly, but surely, drifting farther back in the world markets. Competition, some argue, is necessary for survival, but success requires more than competition. The word competition comes from Latin and

means "seeking together" or "choosing to run in the same race." A philosophy of "me too" and "catch up" is simply not going to be enough for our national competitiveness if we truly are out of the race. But are we really behind? Are we truly a competitive laggard? If so, the U.S. needs an action strategy built on a national consensus of measures to reverse the decline in U.S. competitiveness, insure quality of life in America and secure our future. If not, where is all the rhetoric coming from that speaks so loudly about the decline of America?

#### CAN AMERICA COMPETE?

Before you discuss whether the U.S. is truly competitive, one must come to an agreement on the term competitiveness. The President's Commission on Industrial Competitiveness developed the definition used most frequently to remove a certain ambiguity that still surrounds the word. The commission said "Competitiveness is the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously maintaining or expanding the real incomes of its citizens."<sup>10</sup> This definition, although clearly all encompassing, highlights the fact that competitiveness is not one issue, but a myriad of interrelated problems. The President's Commission also declared that "Competition is not an end in itself, it is a means to an end."<sup>11</sup>

On October 19, 1987, the Dow Jones Industrial Average on the New York Stock Exchange plummeted 508 points, making the most dramatic statement on our economic difficulties in recent history. This one day occurrence unleashed a firestorm of economic soul-searching by academics and business executives, alike. One of the more outspoken groups to discuss American competitiveness was the Cuomo Commission. Governor Mario Cuomo of New York, gathered the business community, labor leaders, politicians, economists and academics to explore the national competitiveness crisis. Members of the commission came from different walks of life and made a historically comprehensive, and expansive study of our national ills.

The Cuomo Commission identified seven warning signs of serious economic trouble. They examined in detail these major areas of concern and dissected them thoroughly to identify some solutions for the current predicament of the U.S. economy.<sup>12</sup>

They were as:

- a. U.S. International Trade Crisis
- b. Consumer, Corporate and Foreign Debt
- c. Volatility in Financial Markets
- d. Slow Growth of U.S. GNP
- e. Less Innovative Economy
- f. Tough Foreign Competition
- g. Real Income Decline for Americans

In this 259-page report, the commission reached a basic conclusion that while the U.S. has lost its dominant position in

the world economy, it need not lose its position of leadership by further decline. The report was a call for a program of international and domestic reforms to restore national competitiveness. "Either America will implement reforms that make the nation more competitive at home or it risks a long, slow national decline."<sup>13</sup> As with any bipartisan report, not everyone agrees with the recommendations. Probably the best description of the commission work came from James D. Robinson, Chairman and CEO of American Express Company who said, "The commission sought consensus, not unanimity."<sup>14</sup>

Apparently academics at some leading business management and engineering schools remain pessimistic about America's drive for competitiveness. A recent study conducted by David Hewitt of the United Research firm found that 21 academics surveyed said the gap between domestic and foreign competition continues to widen.<sup>15</sup> Unlike the Cuomo Commission, however, they felt that most problem areas influencing national competitiveness were primarily internal to companies and hinge on management failures. Areas highlighted by these academics include weakness in management and strategy, lack of manufacturing integration with the rest of the company, oversold technologies, and poor quality of U.S. education.

Some others, however, disagree on these management points. Harvard's Michael E. Porter, under the auspices of the Harvard Business School and the Council on Competitiveness, lead a private group of CEO's to seek solutions to the declining U.S.

competitiveness. They discovered that "policy makers, managers, and investors all have been fixated on the wrong question. Management myopia per se isn't the cause of the decline. Nor is underinvestment. The real blame, goes to the way America's financial system allocates capital."<sup>16</sup>

Porter advocates a Utopian view of sweeping changes required to force management and institutional shareholders to yield independence. Under this report's view, shareholders would hold larger stakes in fewer companies, business executives would base investment decisions not on dollars alone, but on qualitative measures, and the U.S. government would offer access to a larger pool of savings for investment through a stable economy.

So, what is the real story behind our decline? A nation once held by many as the ultimate bastion of optimism is obsessed with "decline-speak." The federal deficit is soaring. Our health system is deteriorating faster than we can shore it up financially. Real wages are falling. Plant and capital equipment investment is down. Most people outside the United States see us as a society built on high consumption and low investment for the future. Live for today, not for tomorrow is our byline.

George C. Lodge, in his book Perestroika for America, suggests that ". . . just as the Soviet Union found its perestroika retarded by old ideology, so does the United States suffer from the mindless clutch of old assumptions."<sup>17</sup> He recommends that the U.S. require investment of profits for

innovation and future growth, not squandered to meet short run expectations. If we don't, budgets and trade deficits will grow, interest rates will rise, inflation will soar and economic collapse will come home to America. The new ideology he suggests is a version of communitarianism, very similar to what Lester C. Thurow advocates in his forthcoming book and his article, "Who Owns the Twenty-First Century?".<sup>18</sup> Central to these two approaches is improved business-government relations that hinge on a definition of roles and procedures for bringing them together. As George C. Lodge puts it, "The overriding task of leadership in business is to make maximum use of minimum crisis for maximum change."<sup>19</sup>

One area of crisis, which needs changing, is America's low level of investment. "Last year, capital spending by American businesses accounted for only nine percent of the country's GNP, compared with almost twenty percent in Japan and thirteen percent in the EC countries."<sup>20</sup> If a shortage of private investment continues, it will eventually sap our economic strength. On the other hand, greater international investment over the past four decades increased dramatically the global integration of world markets. Worldwide, foreign direct investment flows have grown since 1983 at an unprecedented rate of 29% per year.<sup>21</sup> Today, the United States is the world's largest recipient of foreign investment. This investment stimulates U.S. companies to be more competitive internationally. In general, our firms attract foreign capital because they are competitive producers and offer

great returns on capital investments.

These examples of analysis, whether it is George C. Lodge, the Cuomo Commission, or others listed above, continue to argue that the U.S. competitiveness is declining. "If you look at the 50 largest corporations in the world, 70% are Japanese and only 24% are American. How did this come about?", asks Allen Rosenstein.<sup>22</sup> The Economist highlighted the fact that "The U.S. trade imbalance improved to \$100 billion in 1990, but Japan's trade surplus remained at \$64 billion."<sup>23</sup> One primary concern of many economists is that the U.S. is rapidly losing its lead in the manufacturing arena. Sarah Glazer bemoans that "from 1960 to 1985, American manufacturing productivity increased 2.7% annually, compared with Japan's 8% and Germany's 4.8% growth."<sup>24</sup> The internal savings of businesses, which in America previously made possible self-financing, have also been shrinking. As further evidence of our decline, interest payments are the fastest growing line item in the Federal Budget. "From 1970 to 1987, interest on the national debt grew from 7.5% to more than 22% of Federal revenue."<sup>25</sup> These figures and statistics create self-doubt about our standing in the world markets.

Yet, after reviewing all this negativism, they are trends which we expect to threaten our future prosperity. We don't focus on exactly what impact they have on our way of life, economically. As Michael Prowse puts it, "Even using the declinist's own standards, it is not so clear that the U.S. has lost its competitive edge - certainly not so clear as the

conventional wisdom would have us to believe."<sup>26</sup>

Undeniably, the United States has economic problems which affect our ability to compete on a global scale. As Marc Levinson put it in his Newsweek article, "America's Edge: The Myth of the U.S. Competitiveness Crisis," the question of America's competitiveness capability "has echoed in the media since 1980, when two of the most basic and most prosperous American industries - steel and autos - began losing massive shares of their markets."<sup>27</sup> However, recent evidence seems to suggest that maybe all the pundits are being a little short-sighted on our true level of decline. Based on our unique history and our present status as the only "full-service superpower," one should hesitate to bet against us. So, why are we not optimistic about our ability to compete in a globalization market? Some say we should be just that - we compete quite well.

#### WEEP NOT, JEREMIAH, THE FUTURE IS BRIGHT!

"Weep not, Jeremiah" was the title of an article in the July 1992, Economist which made a point of examining the prevailing mood in America that continually laments the passing of American competitiveness. The author said, "This is unfortunate. America's export success is one of the country's better-kept secrets, but it should be shouted from the rooftops."<sup>28</sup> This article is but one of many recent articles which challenges the idea that America has reached her zenith and the "American



Century" is over; our future is behind us. Yale historian Paul Kennedy's bestseller, The Rise and Fall of the Great Powers, chronicles America's decline and is implicit in its pessimism about our future. Since its publication in 1987, mainstream journalists caught on to its precepts and spawned the "era of American economic declinism." Some disagree. Samuel P. Huntington, Director of Harvard's Center for International Affairs, is one who clearly challenges this idea in his Foreign Affairs article, "The U.S. - Decline or Renewal." He makes the following points in his article:

a. The U.S. ratio of gross world product has remained at 20-25% since the 1960's. In 1970-1987, our share varied between 22 and 25%.

b. Our ratio of exports among the big seven countries was about the same in 1987 as in 1970; 23% vice 24%.

c. Our ratio of technology-intensive products has varied only 2% between 1965 and 1984 - 27.5% vice 25.2%.

d. We have accelerated economic growth, from fifteenth in 1965-80 to third in 1980-1986.

e. In 1980-86 our growth spurted to 110.7% of 1965-80 levels, while Japan's fell to 58.7%. In 1983-87, we both grew at the same rate.

"The argument can be made," he concludes, "that the GNP pattern that has emerged in the past two decades is in some sense a historically normal pattern, roughly approximating the distribution that existed before WWII."<sup>29</sup> For the foreseeable

future, he says, besides accelerating growth in some developing nations, this comparative pattern is unlikely to change.

When you look at the economic growth of the industrial countries, i.e., the Group of Seven (G-7) countries, over the last 10 years, America's share of global output has dropped, but that is because the other countries were also expanding. As Phillip Burgess puts it, "As the pie gets larger, we have a bigger piece, but a smaller share. When you're eating pie, it's the size of the piece, not the share of the pie that matters."<sup>30</sup> Even if you want to look at global market share, the U.S. share "runs something like the following: U.S. around 25%, the EC around 22%, the CIS about 14% and Japan 12%. This is not the view you get by listening to decline-speak."<sup>31</sup>

One of the most common measures of the overall performance of our economy is GNP, or Gross National Product. It is the market value of all goods and services, produced during a particular measurement period by U.S. residents. A closely related measure, Gross Domestic Product (GDP), is the value of output produced by people, government, and firms in the U.S., whether they are U.S. or foreign citizens, or American or foreign firms. The distinction between GNP and GDP is not very great for the United States. Relatively few U.S. residents work abroad, and U.S. earnings on foreign investment are about the same as foreign earnings or investments in the United States.<sup>32</sup> So, if GDP is the primary measure of aggregate activity in the U.S., how are we doing? According to John E. Jelacic, Senior International

Economist, Office of Trade Investment Analysis, the U.S. is maintaining our edge. Although our annual percentage change in GDP over the last 10 years has decreased, so have Japan and the EC figures. The U.S. went from a 4% growth in 1983-1987 to 2.5% in 1992, while Japan and the EC went from 3.8% to 2%, and 2.4% to 1.5%, respectively.<sup>33</sup>

Because the international marketplace is so difficult to truly compare, the statistical methodology differs among countries, and even economists, in our own country. Even the U.S. government has difficulty coming up with good international comparisons to judge performance. Lately, global integration of the marketplace has seemingly heightened interest in national competitiveness. The Council of Economic Advisors to the President gauge international competitiveness using three different measures. They are:

- a. Relative unit labor costs measure changes in the relative cost competitiveness of goods produced with U.S. labor.
  - b. Relative unit value of manufacturing exports indicates changes in the relative price competitiveness of exports.
  - c. Real exchange rate is the nominal exchange rate adjusted for changes in the consumer price indexes at home and abroad.
- Since 1980, all three measures show the same trend; a negative peak in 1985 and improvements ever since. "From 1985 to 1990, U.S. international competitiveness, based on relative unit labor costs, improved 60% more than the measure based on relative unit value of exports of manufactured goods."<sup>34</sup> U.S. labor helped

make this improvement in international competitiveness possible. Couple this improvement with "the dollar down 45% against the yen and the D-mark since 1985, and the United States becomes the lowest-cost producer of everything from steel coil to cardboard boxes. There is no sign of a letup."<sup>35</sup> A further study using Organization for Economic Cooperation and Development (OECD) figures shows that in the 1980's, "America produced almost twice as much for every man hour worked, across the entire economy, as Japan."<sup>36</sup>

Worry about our loss of national competitiveness centers, in other circles, on our trade deficit. Journalists spend quite a bit of time highlighting the U.S. trade deficit figures as true indicators of our national dilemma. The last time the United States exported more than it imported was in 1975 (108.9 billion exported vice 98.5 billion imported).<sup>37</sup> But, our trade deficit has shrunk from a high of \$152.1 billion in 1987 to an estimated \$64.3 billion in 1991.<sup>38</sup> The projections for 1992 also place our trade deficit in the \$65 - 69 billion dollar range.<sup>39</sup> In any event, a trade deficit analyzed in exclusion really says nothing about our national competitiveness. It requires a more extensive examination to decide what it really means to our economy.

Since 1986, the volume of America's manufacturing exports has risen by around 90%, compared with average growth in the rest of the OECD industrialized countries of 25%. Even in 1991, as the world economy slowed, exports of American manufactured goods rose seven percent, compared with an average increase of just

one-half percent in other OECD countries.<sup>40</sup> The manufacturing sector will continue this growth pattern for 1992. For example, exports of auto parts and accessories will grow by 9%, exports of surgical and medical instruments, by 15%, and exports of surgical appliances and supplies, by 12%, says the U.S. Department of Commerce's International Trade Administration.<sup>41</sup>

The best news about our increasing growth in exports is not the growth itself, but the effect it has on our payrolls, i.e., putting people to work. According to the Commerce Department's Economic and Statistics Administration, U.S. exports supplied some 7.2 million jobs in 1990. That was up 42% from around five million export-related jobs in 1986. One estimate suggests that merchandise exports supported 7.6 million jobs in 1991. The trend will continue throughout 1992, but figures are not in yet.<sup>42</sup>

Even if you want to discount all of the statistical "mumbo-jumbo," it is hard to discount the fact that American industry remains among the most competitive and innovative in the world. U.S. companies lead the way in a multitude of technology-driven industries "such as computer software, microprocessor chips, aerospace, energy, pharmaceutical, and biotechnology. Listing American companies that are world-beaters in these fields is easy: GE, Boeing, Motorola, Apple, Microsoft, Intel, Merck, Eli Lilly, and Bristol-Myers Squibb."<sup>43</sup> To further this premise, when the Japanese government's Economic Planning Agency surveyed 110 critical technologies in 1991, it concluded that the U.S.

dominated forty-three of them, Japanese firms dominated thirty-three, while European and others the remaining thirty-four. Clearly, American firms continue to innovate," and dominate.<sup>44</sup>

Lately, bashing our national competitiveness because of the perceived move toward a service nation also takes on a life of its own. Everyone knows that a world-class economy can't be built on a service-based future, right? Service industries are not clearly linked to the international market, so it makes comparison difficult, at best. World market success in service related industries is also hard to quantify because they consist of so many intangible components. However, most would agree that the entertainment, fast-food, banking, and construction engineering industries are world dominating in their own right. Additionally, many service industries jobs depend on direct exports. "As many as three million of the service sector's jobs in 1990 were tied to merchandise exports."<sup>45</sup> The best feature of this, according to Forbes magazine, is that export-related jobs pay better than business as a whole. Analysis shows that in 1990, overall jobs supported by exports paid nearly 17% more than the average for all jobs in America.<sup>46</sup> Couple the U.S. worker, who is already the lowest-cost producer and ten to fifteen percent more productive than the Japanese, to a manufacturing and service sector export growth in the 1990's, and you have an extremely bright outlook for America. U.S. competitiveness: myth or reality? I believe the facts decide this question.

## CONCLUSION

"Perestroika comes hard," says George C. Lodge in discussing how to restructure business-government relations for world competitiveness. Perestroika is undertaken for pragmatic reasons, and carries with it - unavoidably - the seeds of a new set of ideology. The choices offered by Mr. Lodge are to remodel America to recover economic competitiveness or retrench in the hope that we will survive anyway.

But are we truly future has-beens? I think not. America stands on the precipice of a truly historic era. We are the world's largest and most productive economy. We are the undisputed leader of the most prosperous alliance of nations in the world. We are the birthplace of individual and market freedoms. The dollar dominates, and will continue to dominate, the world economy. English is the spoken language of economics and business throughout the world. Our military power is unsurpassed and able to project anywhere in the world, something no other country can do today. Anyone who doubts these points only needs to examine global politics and economics and see how well America wears the mantel of "full-service superpower."

The mind-boggling quantity of pro and con economic statistics discussed in this paper leave a sometimes muddled impression that America is winded, but once again catching its breath. Taken separately, that may seem so, but I believe together they clearly show that America is truly a competitive

nation and will remain so. Are we ready to continue in this role? The public debate suggests that we might not. Our obsession with declinism reveals a lack of self-knowledge, and a skewed perspective of what drives America.

Our true decline problem, however, is not our economic performance, nor our international resourcefulness. The culprit, I believe, is the myriad of simplistic and idea specific, reader-oriented definitions of national competitiveness which prevail in our journalistic media. Preoccupation with self-flagellation, Japan bashing, and economic remedy prescriptions, weakens the true view of our world stature and clouds economic decision-making.

Clearly, what lies ahead in our economic struggle is formidable. Progress will come slowly. The world is changing, and will be unstable for years to come, as the New World Order settles into a routine of economic stability. We will, however, take advantage of that economic expansion better than any other country. Why not optimism? As Andre Malraux observed, "We are evolving from the far reaches of time, and I don't know if what impresses me most is the enormity of what is behind us . . . or the enormity of what lies ahead."<sup>47</sup> America cannot afford to let a defeatist attitude sink into the far reaches of our minds. We must not let the enormous uncertainties of the future hinder our strengths and drive us to make economic choices which impede our progress. Marc Levinson, in his article, "America's Edge" hit the nail on the head. "Maintaining competitiveness is mostly a



matter of sound, long-term economic management. So forget about the competitiveness crisis, the crash programs and the tax gimmicks."<sup>48</sup> David T. Methe, in his book Technological Competition in Global Industries: Marketing and Planning for American Industry, makes a similar argument. He suggests that invention and innovation is not sufficient for success in any market. "Of paramount importance is the creation of competitive advantage over others through creatively learning what customers want, producing it, and managing the entire process despite unpredictable changes."<sup>49</sup> The implications of this view of competition send an important message to policymakers and theorists. Coordination and management become the essentials of competition. America can handle the adversities of management and unpredictable change. The U.S. remains the envy of the world and our dominance, although tarnished by those who espouse "decline-speak," is nevertheless, solid. We are on the right track, let's not change train engines now. Let's get on with our bright future!

## ENDNOTES

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